Pearson Edexcel

Mark Scheme (Results)

Summer 2022

Pearson Edexcel GCE AS Level
In Economics A (8EC0)
Paper 02 The UK Economy - Performance and Policies

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question Number	Answer	Mark
1(a)	**The only correct answer is C** **A** is not correct because quantitative easing will increase AD and therefore economic growth **B** is not correct because quantitative easing increases inflationary pressures due to an increase in AD **D** is not correct because quantitative easing would lead to increase in AD and a fall in the level of unemployment as real output increases	**(1)**

Question Number	Answer	Mark
1(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for, e.g. • Decreases reward for saving (1) • Decreases cost of borrowing (1) • Decreases hot money flows (1) **Application:** 1 mark for, for e.g. • Cut the UK's base interest rate from 0.75% to 0.1% in March 2020 (1) • Interest rate decreased by 0.65 percentage points in March 2020 (1) • Interest rate already at a very low level (1) • Cheaper mortgages/loans (1) • Greater R&D spending by firms (1) **Analysis:** 1 mark for linked development, e.g. • Consumption will increase, AD and inflation rises (1) • Investment will increase as cost of production will decrease, AD and inflation rises (1) • Exchange rate will depreciate and will raise (X-M); therefore AD and inflation rises (1)	**(3)**

Question Number	Answer	Mark
2(a)	**Knowledge 1** **Knowledge:** 1 mark for definition, e.g. • Not adjusted for inflation (1) • Figures at current prices/market value (1)	**(1)**

Question Number	Answer	Mark
2(b)	**The only correct answer is B** **A** is not correct because this figure is the index number for 2016 using 2018 as the base year **C** is not correct because this figure is the index number for 2017 using 2016 as the base year **D** is not correct because this figure is the index number for 2018 using 2016 as the base year	**(1)**

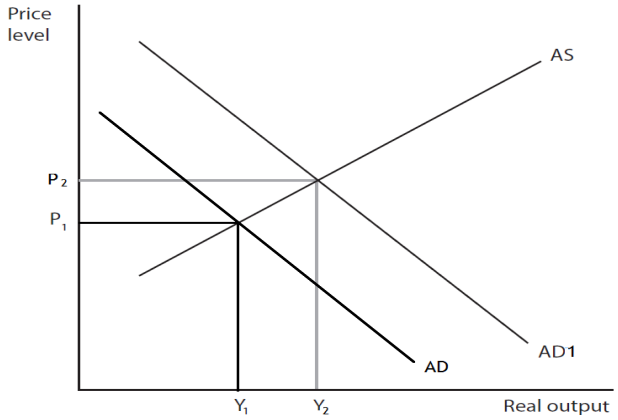
Question Number	Answer	Mark
2(c)	**Application 2** **Application:** 1 mark for appropriate calculation, e.g. 2 061 408 / 66.4 (1) Answer = **£31 045.30** Allow **31 045** / **£31 000** • Award 2 marks for correct answer (£31 045.30 / £31 045 / £31 000) • If million is given after the answer, then award up to 1 mark	**(2)**

Question Number	Answer	Mark
3(a)	**The only correct answer is C** **A** is not correct because earnings are adjusted for inflation and not interest rates **B** is not correct because between nominal earnings have increased by nearly £125 **D** is not correct because real earnings have remained steady throughout the given period	**(1)**

Question Number	Answer	Mark
3(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for, e.g. • Defining subjective happiness: happiness that may differ between individuals (1) • As real incomes increase, happiness increases (1) **Application:** 1 mark for reference to the chart, for e.g. • Real earnings have been steady throughout the time period given (1) • Real earnings have been constant at approximately £450-£460 per week (1) **Analysis:** 1 mark for linked development, e.g. • Higher earnings increase an individual's ability to afford/buy/spend on more goods and services (1) • As real earnings have not increased, people are unlikely to experience a big improvement in their living standards (1)	**(3)**

Question Number	Answer	Mark
4(a)	**Knowledge 1** **Knowledge/understanding:** 1 mark for definition, e.g. • The value/price of one currency in terms of another (1) • The rate at which the money of one country can be changed for the money of another country (1)	**(1)**

Question Number	Answer	Mark
4(b)	**The only correct answer is B** **A** is not correct because this is the difference between $1.53 and $1.22 **C** is not correct because this uses the present year to calculate the percentage change **D** is not correct because this is the calculation of an index number taking 2015 as the base year	**(1)**

Question Number	Answer	Mark
4(c)	**Application 2** **Application:** 2 marks for, • Correct rightward shift of AD (1) • Correct new equilibrium point showing higher price level and higher real output (1)  	**(2)**

Question Number	Answer	Mark
5(a)	**The only correct answer is A** **B** is incorrect as although prices rising more slowly, the average price level were still increasing **C** is incorrect as there was disinflation between August 2018 and January 2019 **D** is incorrect as there was inflation between October 2016 and May 2017	**(1)**

Question Number	Answer	Mark
5(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for identifying **one** limitation, e.g. • Does not include housing costs (1) • There are sampling problems (1) • Basket of goods is updated only once a year (1) • Only measures the cost of living for an average household (1) **Application:** 1 mark, for e.g. • Reference to chart (1) • Current inflation rate (1) • CPI target is 2% +/- 1% (1) • Fewer than 60% reply to the survey (1) • New items such as canned pulses included (1) **Analysis:** 1 mark for linked development, e.g. • Monthly rent or mortgage interest repayments form a large part of consumers spending (1) • Not all the people respond to the survey or may not provide with accurate information (1) • Tastes and preferences change very frequently, and the basket may not reflect these new items (1) • The top and bottom 4% of income brackets are not included, and nor are pensioners (1)	**(3)**

Question Number	Answer	Mark
6(a)	**Knowledge 2, Application 2** **Knowledge/understanding** 2 marks for, e.g. • An increase in (1) capital stock of the economy (1) • Money spent on purchasing capital goods/improving factors of production (1) to raise productivity/LRAS/ produce consumer goods (1) • An injection (1) into the circular flow of income (1) **Application** 2 marks for 2 data references from Figure 1 (1+1), e.g. • In Q1 2015, investment increased by 4% (1) and in Q1 2016, investment decreased by 2% (1) • Between Q3 2018 and Q2 2019, investment has been falling each quarter (1) • In Q2 2014, highest percentage change (1) was approximately 8.2% (1)	**(4)**

Question Number	Answer	Mark
6(b)	**Knowledge 2, Application 2, Analysis 2** **Knowledge/understanding and analysis** 1 mark for identification of each influence (1+1) and 1 mark each for linked development (1+1), e.g. • Business confidence/expectations/animal spirits (1K): firms will only invest if there is less uncertainty about future costs and revenues, and sales (1AN) • Demand for exports (1K): lower the demand in a country to which a firm is trying to export, the less the investment (1AN) • Rate of economic growth (1K): fall in GDP will mean firms do not invest in capital goods as there is lower demand (1AN) **Application** 1 mark for each data reference (1+1), e.g. • Firms are reluctant to commit to capital spending while there is economic uncertainty (1) • uncertainty over the UK's future trade relationship has discouraged companies from investing (1) • trade tensions are also affecting investment (1) • fall of 0.2% in Gross Domestic Product (GDP) (1) • another recession? (1) **NB Award up to 4 marks for one influence well developed (1kn + 1ap + 2an)**	**(6)**

Question Number	Indicative content	Mark
6(c)	**Knowledge 2, Application 2, Analysis 2** Understanding of the term GDP / living standards Limitations may include: • Percentage changes are misleading without any reference to total GDP • Presence of an informal and unpaid economy will imply that some output is unrecorded as it is not bought or sold and there is no resulting income • Differences in distribution of income as growth varies across the country with jobs and wages distributed unevenly • Quality of life issues such as spending on health and education – impact is difficult to measure • Subsistence, barter, and the hidden economy will undervalue the real output and national income shall not reflect true living standards • Currency values do not effectively calculate an accurate purchasing power parity • Population growth in developing countries may account for most growth in GDP • Spending on investment goods may raise future living standards at the expense of the current • Methods of calculation and reliability of data • Size of the public sector spending which may or may not improve the standard of living Students may consider the limitations of real or nominal GDP	**(6)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
6(c) continued	**Evaluation 4** Points may include: • Ease of using GDP data for comparison over time • Benefits of using GDP for comparison – standard measure and well understood • GDP is internationally recognised and still possibly the best measure available for comparison • Other measures might be better, e.g. GDP per capita gives an indication of average incomes, which is a key determinant of living standards • Standard of living is subjective, and it cannot be measured effectively and accurately	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by chains of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Answer	Mark
6(d)	**Knowledge 1, Application 2, Analysis 2** **Knowledge/understanding and analysis** 1 mark for identification of **one** reason and up to 2 marks for linked development (1+1), for e.g. • Export-led growth (1K): a decrease in net exports will decrease their AD (1AN), leading to lower real output/economic growth (this may be shown diagrammatically) (1AN) • Slowdown in economic growth of trading partners (1K): so when Germany and Italy encounter lack of demand for their exports (1AN) there is a fall in the net trade component of their AD (1AN) **NB Answers can be analysed and explained in any combination of the above points** **Application** 2 marks (1+1), for e.g. • Germany and Italy are export-focused (1) • The UK economy is consumption driven (1) • Highly exposed to the slowdown in world trade (1) • There has been a fall in average global incomes (1) • Contribution of exports to Germany's and Italy's GDP/economic growth is greater than that of UK (1) • Germany and Italy are more reliant/dependent on international trade than the UK (1)	**(5)**

Question Number	Indicative content	Mark
6(e)	**Knowledge 3, Application 3, Analysis 3** Impact (cost) may include: • Consumers will receive lower average incomes and they will not be able to afford more goods/services nor increase their standard of living; poverty rates could potentially rise; house prices depressed • With lower real GDP, firms employ less workers creating unemployment; wages fall and creates greater inequality .. "low income households cannot cope with a new downturn" • Firms are likely to make less profits as consumer spending falls; less production implies lower future investment into R&D/innovation • With lower GDP, fewer resources can be devoted to promoting the use of renewable resources • Reduction in tax revenues and higher government spending on unemployment and welfare benefits; greater borrowing and debt to GDP ratios • High social dislocation/crime/civil unrest/stress issues/high divorce rates; worsens health; lower life expectancy **NB Responses can discuss costs as KAA and benefits as EV (and vice versa)**	**(9)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6(e) continued	**Evaluation 6** Impact (benefit) may include: • Lower demand may reduce demand-pull and cost-push inflationary pressures; the central bank may decide to lower interest rates to control inflation • Lower external costs due to less output production by firms; less exploitation of finite resources and less depletion of non-renewable resources • Lower spending on imports as marginal propensity to import will fall, causing an improvement in the current account deficit of the balance of payments • Lower inequality: those with assets may witness a proportionally smaller rise in the market value of their income on their wealth • Depressed house prices make houses affordable to non-homeowners • Many problems of crime/excessive consumption of demerit goods are committed by people in work – this is likely to fall • *Other evaluative comments:* just a -0.2% contraction thus the impact will be relatively small/the size of the recession is important in terms of the impact • Recession did not occur in 2019 as there were no two quarters negative growth	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Indicative content	Mark
6(f)	**Knowledge 4, Application 4, Analysis 6** KAA: • Definition of expansionary fiscal policy • AD/AS diagram showing change in AD/AS consistent with analysis Possible policies include: • Increase government expenditure, e.g. on training and apprenticeship programmes • Education spending by offering more bursaries for university courses and subsidies to universities • Government spending on infrastructure and housing policies (mortgage relief, key worker subsidies) • Cut in the rate of income tax – increase purchasing power and disposable income; will lead to greater consumption and promote economic growth • Increased income tax threshold, decrease in national insurance contributions • Lower indirect taxes, e.g. VAT • Relaxation of austerity measures • Increase in unemployment benefits **Evaluation 6** • Significance of the fiscal policy - monetary policy may be seen as an ineffective tool (as interest rates have been historically low) in tackling future downturns • Conflict with other macroeconomic objectives such as reducing budget deficit and national debt (can award conflicts with different objectives) • Long run and short run impacts (18 to 24 months time lags)/implementation lags • Depends on the value of the multiplier in the UK • If consumer and business confidence is low, the effects may not be as large or significant • Depends on the level of spare capacity in the economy/elasticity of the LRAS • Relative importance and likely effectiveness of the policies discussed, e.g. raising benefits provides less incentive to find employment • Free market economists argue that higher spending will be wasted on inefficient spending projects • Can lead to higher bond yields, increasing the cost of debt repayments	**(20)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two-stage chain of reasoning only.
Level 3	7–10	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	11–14	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

Question Number	Indicative content	Mark
6(g)	**Knowledge 4, Application 4, Analysis 6** KAA: • Understanding/definition of supply-side policies • Understanding/definition of productivity • AD/AS diagram showing change in AS consistent with analysis/use of PPF diagram • Increased government spending on education and/or training - this would increase skills and productivity • Increased government spending on healthcare – this should reduce the number of days absent from work • Reducing level of benefits and/or income tax – this would incentivise employment and will increase the output per worker of those in work and increase the number of workers in work • Cutting cost of bureaucracy and/or reduce regulation of firms – this would raise productivity • Improving regulation and/or competition of inefficient industries – this would increase the UK's productivity • Privatisation - this may lead to increased competition, innovation and efficiency in the UK • Increased government spending on infrastructure investment (e.g. broadband or roads) – this would reduce industry costs or improve access to market • Reducing corporation tax – therefore increasing the international competitiveness for investment • Government schemes to improve childcare provision • Increased flexibility and/or mobility of labour **NB Award a maximum of Level 3 if there is no link to or discussion of productivity** **Evaluation 6** • Significant time lag for supply-side policies • Difficult to accurately measure productivity • Consideration of effectiveness of supply-side policies such as infrastructure, education and healthcare at delivering sustainable growth • Privatisation may lead to private monopolies and less efficiency and lower economic growth • Cut in income tax designed as an incentive to work and investment may be ineffective if workers use it as an opportunity to work less for the same income • Cut in corporation tax ineffective if companies use the cut in corporation tax to boost their short-term profits rather investment on productivity-boosting technology • Increase in UK taxation elsewhere may have an effect on incentives to work	**(20)**

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
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Evaluation		
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Level 3	5–6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

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